

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



51ST DISTRICT AGRICULTURAL ASSOCIATION
THE VALLEY FAIR
SHERMAN OAKS, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-049
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

51ST DISTRICT AGRICULTURAL ASSOCIATION
THE VALLEY FAIR
SHERMAN OAKS, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
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Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#08-049

51ST DISTRICT AGRICULTURAL ASSOCIATION
THE VALLEY FAIR
SHERMAN OAKS, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. David Honda, President
Board of Directors
51st DAA, The Valley Fair
5121 Van Nuys Blvd., Ste. 204
Sherman Oaks, California 91403-6121

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 51st District Agricultural Association (DAA), The Valley Fair, Sherman Oaks, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 51st DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

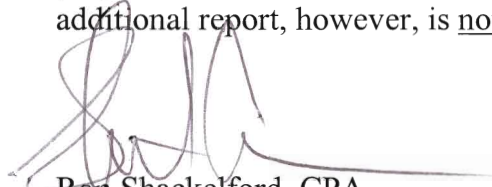
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 51st DAA, The Valley Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 51st DAA, The Valley Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-049 on the 51st DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 51st DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



For Ron Shackelford, CPA
Chief, Audit Office

October 24, 2008

**51ST DISTRICT AGRICULTURAL ASSOCIATION
THE VALLEY FAIR
SHERMAN OAKS, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

	Account Number	2007	2006
ASSETS			
Cash in Bank	111 - 117	\$ 2,892,525	\$ 2,940,514
Accounts Receivable, Net	131	43,884	44,074
Deferred Charges	143	2,535	-
Deposits	150	500	-
Leasehold Improvement, Net	194	-	71,311
TOTAL ASSETS		2,939,444	3,055,899
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable & Other Liabilities	212-226	5,505	9,588
Deferred Income	228	-	68,875
Compensated Absence Liability	245	19,947	14,744
Total Liabilities		25,452	93,207
Net Resources			
Reserve for Junior Livestock Auction	251	(8,901)	2,847
Net Resources - Operations	291	(77,107)	(111,466)
Net Resources - Capital Assets	291.1	-	71,311
Net Resources - Reserve for Land	292	3,000,000	3,000,000
Total Net Resources Available		2,913,993	2,962,692
TOTAL LIABILITIES AND NET RESOURCES		\$ 2,939,444	\$ 3,055,899

**51ST DISTRICT AGRICULTURAL ASSOCIATION
THE VALLEY FAIR
SHERMAN OAKS, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2007 and 2006**

	Account Number	2007	2006
REVENUE			
State Apportionments	312	\$ 180,000	\$ 180,000
Capital Projects Improvement	318	40,000	30,000
Admissions	410	56,452	54,827
Commercial Space	415	43,610	31,280
Carnival	421	23,392	21,742
Food Concessions	422	14,320	13,923
Exhibits	430	273	1,169
Miscellaneous Fair	470	10,101	18,213
JLA Revenue	476	7,808	2,489
Prior Year Revenue	490	61,830	84
Other Revenue	495	150,984	136,595
Total Revenue		588,771	490,322
EXPENSES			
Administration	500	184,058	156,850
Maintenance and Operations	520	132,925	114,661
Publicity	540	37,211	70,512
Attendance	560	34,049	37,342
Miscellaneous Fair	570	-	6,913
JLA Expense	576	19,556	11,316
Premiums	580	1,733	2,285
Exhibits	630	78,702	58,529
Attractions - Fairtime	660	63,225	83,138
Prior Year Adjustments	800	83,202	(16,814)
Cash Over/Short from Ticket Sales	850	(44)	1
Depreciation Expense	900	2,852	2,852
Total Expenses		637,470	527,585
RESOURCES			
Net Change - Income / (Loss)		(48,699)	(37,263)
Resources Available, January 1		2,962,692	2,999,955
Resources Available, December 31		\$ 2,913,993	\$ 2,962,692

**51ST DISTRICT AGRICULTURAL ASSOCIATION
THE VALLEY FAIR
SHERMAN OAKS, CALIFORNIA**

STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ (48,699)	\$ (37,263)
Adjustment to Reconcile Excess of Revenue Over Expense to Net Cash Provided by Operating Activities		
(Increase) Decrease in Accounts Receivable	190	(12,343)
(Increase) Decrease in Deferred Charge	(2,535)	100
(Increase) Decrease in Deposits	(500)	6,473
Increase (Decrease) in Accounts Payable	(4,083)	(940)
Increase (Decrease) in Deferred Income	(68,875)	1,875
Increase (Decrease) in Unclaimed check	-	(439)
Increase (Decrease) in Absence Liability	5,203	14,744
Total Adjustments	<u>(70,600)</u>	<u>9,470</u>
Net Cash Provided (Used) by Operating Activities	<u>(119,299)</u>	<u>(27,793)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Leasehold Improvements	71,311	2,853
Net Cash Provided (Used) by Investing Activities	<u>71,311</u>	<u>2,853</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	-	-
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	(47,988)	(24,940)
Cash at Beginning of Year	2,940,514	2,965,454
CASH AT END OF YEAR	<u><u>\$ 2,892,525</u></u>	<u><u>\$ 2,940,514</u></u>

**51ST DISTRICT AGRICULTURAL ASSOCIATION
THE VALLEY FAIR
SHERMAN OAKS, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 51st District Agricultural Association (DAA) was reinstated in 1973 for the purpose of sponsoring, managing, and conducting The Valley Fair each year in Sherman Oaks, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents – The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment, if any, are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 8.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization.

The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 200	\$ 200
Cash in Bank - Operating	2,156	9,259
Cash in Bank - Premium	163	339
Cash in Bank - Payroll	3,728	3,754
Cash in Bank – LAIF Land	2,890,400	2,927,702
Cash in Bank – JLA	<u>(4,122)</u>	<u>(740)</u>
Total Cash and Cash Equivalents	<u>\$ 2,892,525</u>	<u>\$ 2,940,514</u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 11,771	\$ 2,528
Accounts Receivable - JLA	890	6,170
Accounts Receivable - Interest	36,191	37,904
Allowance for Doubtful Accounts	<u>(4,968)</u>	<u>(2,528)</u>
Accounts Receivable - Net	<u>\$ 43,884</u>	<u>\$ 44,074</u>

NOTE 4 LEASEHOLD IMPROVEMENTS AND EQUIPMENT

In 2002, the 51st DAA entered into a three-year agreement with a local government agency to utilize their facility as a site for the four-day fair. The 51st DAA agreed to make capital improvements for the facility, with a verifiable minimum value of \$10,000 a year, as an alternative to paying cash for using the facility. In 2002, the Fair spent approximately \$85,573 on capital improvement on the facility. These amounts were capitalized and depreciated,

accordingly. In 2007, the Fair no longer leased the local government agency facility site for the four-day fair. The 51st DAA conducted the fair at another location. As a result, all amounts previously capitalized were expensed.

At December 31, 2007 and 2006, leasehold improvements, and equipment consist of the following:

	2007	2006
Leasehold Improvements	\$ 0	\$ 85,573
Less: Accumulated Depreciation	0	(14,262)
Leasehold Improvements - Net	<u>\$ 0</u>	<u>\$ 71,311</u>
 Equipment	 \$ 35,200	 \$ 35,200
Less: Accumulated Depreciation	<u>(35,200)</u>	<u>(35,200)</u>
Equipment - Net	<u>\$ 0</u>	<u>\$ 0</u>

NOTE 5 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are

placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 6 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**51ST DISTRICT AGRICULTURAL ASSOCIATION
THE VALLEY FAIR
SHERMAN OAKS, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 51st DAA Board of Directors
1	Chief Executive Officer, 51st DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



51ST DISTRICT AGRICULTURAL ASSOCIATION
THE VALLEY FAIR
SHERMAN OAKS, CALIFORNIA

MANAGEMENT REPORT #08-049

YEAR ENDED DECEMBER 31, 2007

51ST DISTRICT AGRICULTURAL ASSOCIATION
THE VALLEY FAIR
SHERMAN OAKS, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Hardeep Kaur

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#08-049

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. David Honda, President
Board of Directors
51st DAA, The Valley Fair
5121 Van Nuys Blvd., Suite 204
Sherman Oaks, California 91403

In planning and performing our audit of the financial statements of the 51st District Agricultural Association (DAA), The Valley Fair, Sherman Oaks, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by The Valley Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 51st DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 51st DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 51st DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 51st DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 51st DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 51st DAA and compliance with state laws and regulations, we identified four areas with reportable conditions that are considered weaknesses in the Fair's operations: restricted net resources, leave buy back, cash accounts, and junior livestock auction. We have provided six recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 51st DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

RESTRICTED NET RESOURCES

As of December 31, 2007, the Fair has yet to fully repay its restricted funds account for amounts that were spent in the past for operating purposes. In 1982, the Fair sold land totaling \$3,000,000, at which time the funds became restricted for the purchase or lease of real property as stated in Senate Bill No. 431, section 1 of Chapter 1005 of the statutes of 1982. For the calendar years of 1997, 1998, and 1999, the Fair improperly transferred a total of \$280,000 of restricted funds from their Local Agency Investment Fund (LAIF) to their operating account for daily operating expenses. In addition, the Fair lost another \$235,788 of restricted funds relating to bonds investments. In 2006, the Fair reduced the original deficit of \$515,788 to \$72,297; however, in 2007, the Fair has increased the deficit to \$109,600. Our office noted the Fair improperly transferred \$37,303 of restricted funds from their LAIF account to their operating account for daily operating expenses. This was a prior year audit finding.

Recommendation

1. *The Fair should continue to replenish the restricted funds balance in the LAIF account until it is restored to the original \$3,000,000. Furthermore, the Fair should ensure that restricted funds are only used for its intended purpose of either purchasing or leasing real property.*

LEAVE BUY BACK

According to the Fair's payroll records, one employee of the Fair cashed paid leave hours in excess of State limitations. In 2007, the Fair's compensated leave records show one exempt employee cashing 224 annual leave hours totaling approximately \$8,137. The State does not allow employees to cash out their leave balances unless authorized by the Department of Personnel Administration (DPA). In 2007, DPA sent a letter to all state agencies stating that exempt employees were allowed to cash out a maximum of 40 compensated leave hours. Based on the maximum hours allowed, the Fair's employee improperly cashed out approximately \$6,694 in excess of DPA's authorized limitations.

Recommendations

2. *The Fair should establish accounts receivable for the one employee and collect the amounts paid for compensated leave in excess of DPA approved limits*
3. *In the future, the Fair should comply with all State rules and regulations governing payroll and restrict the cashing of paid leave to the maximum limitation established by DPA.*

CASH ACCOUNTS

Our office noted the Fair did not use the correct information to prepare Standard Form 445, "Report of Bank/Savings & Loan Association Account Outside the Treasury System". For its Operating, Premium and JLA cash accounts, the Fair reported the June 30, 2007 balances as \$114,498, \$1,235 and \$54,566, respectively, using bank statement balances. However, the State Treasurer's Office (STO) requires the book (general ledger) balance, rather than the bank statement balance to be reported for each bank account outside the State Treasury. The book balances in the cash accounts as of June 30, 2007 were: Operating \$55,905, Premium \$267 and JLA \$43,382, per the general ledger. As a result, the Standard 445 Form was overstated by \$70,745.

In addition, the Fair exposed itself to loss by not updating authorized signature cards on the Local Agency Investment Fund (LAIF) account when authorized signors separated from the Fair. Our office noted the Fair's LAIF account has two of the prior board members as signors of the account.

Recommendations

4. *Prior to submission to the State Treasurers Office, the Fair should ensure Standard Form 445, "Report of Bank/Savings and Loan Association" reflects the general ledger balance, rather than bank statement balance, at June 30 for each bank account outside the State Treasury*
5. *The Fair should update the LAIF authorized signature/transfer card as soon as reasonably possible by removing the prior board members as persons authorized to transfer funds. In the future, the Fair should review and update all bank signature cards with regularity, so as to provide the banking institution with the most current authorized signatures.*

JUNIOR LIVESTOCK AUCTION

The Fair did not reconcile Account #251, Reserve for Junior Livestock Auction (JLA), to Account #117, JLA- Cash. As a result, the balances in these accounts do not agree. According to the APM, the balance in the auction account, adjusted for accounts receivable and accounts payable, must equal the related net resources, Account #251, Reserve for JLA. The purpose of this procedure is to ensure funds from JLA activities are segregated from Fair operating funds. This was a prior year audit finding.

Recommendation

6. *The Fair should improve its accounting procedures for JLA transactions. At year-end, the Fair should ensure it reconciles the JLA cash account to the JLA reserve account.*

NON-REPORTABLE CONDITIONS

CARNIVAL REVENUES

The Fair exposed itself to loss by not having the carnival contractor review and approve the carnival settlement sheet prior to final monetary settlement. The purpose of the carnival settlement sheet is to summarize all fairtime carnival financial revenues and provide assurance to the Fair that all carnival revenues have been properly reported. The Accounting Procedures Manual requires both the Fair and the contractor to sign the settlement sheet. These signatures verify that both parties, prior to any final monetary settlement, agree upon the amounts reported on the settlement sheet.

Recommendation

The Fair should ensure the final carnival settlement sheet has been reviewed for accuracy and signed by both parties prior to final monetary settlement. The purpose of this procedure is to alleviate any discrepancies or claims that may arise at a later date.

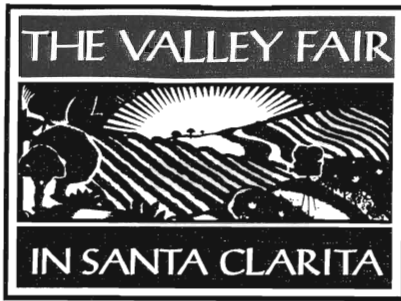
ACCOUNTS RECEIVABLE

The Fair did not recognize all doubtful accounts receivables and, as a result, overstated its total assets at year-end by a minor amount. The Fair did not establish an allowance for doubtful accounts at year-end for approximately \$2,440 of accounts receivables that were deemed uncollectible. According to the APM, an allowance for doubtful accounts should be recognized in the accounting records when an account is deemed uncollectible. This process presents the Fair's assets more accurately on the year-end financial reports.

Recommendation

Prior to closing the accounting period at year-end, the Fair should evaluate each outstanding accounts receivable for collectability. Any receivable that is considered uncollectible should be recorded in Account #131, Allowance for Doubtful Accounts. The Fair should ensure it continues to monitor all outstanding account balances on a timely basis to evaluate its collectability.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



State of California
51st District Agricultural Association 1/5/09

BOARD OF DIRECTORS

David Honda, President

Arthur Sweet
Jane Boeckmann
Dallas Boardman
Margie Beeson
Pamela Corradi
Dennis DeYoung
William Lander
Barbara Perkins

Ron Shackelford, CPA
Chief Audit Office
1220 N. Street, Room 344
Sacramento, CA 95814

RE: REPORTABLE CONDITIONS

Catherine Garcia, CEO

Dear Mr. Shackelford:

This letter is in response to and addresses the reportable conditions requirement on pages three and four of the audit report.

As we address the Audit Office 2007 report, page three, a plan of action requested by your office is required to be submitted. Enclosed is how the 51st DAA plans to replenish the deficit in the LAIF restricted funds account, establish an accounts receivable for leave buy back, correct the Standard Form 445, and improve the Junior livestock accounting procedures.

Restricted Net Resources

The 51st DAA is eager to comply with the requirements of the restricted funds account and has put the following measures in place to insure compliance.

To date, the 51st DAA transfers the interest accrued out of the LAIF account on a yearly basis and deposits it into the general operating account. The plan of action that the 51st DAA has is to replenish a partial amount of the restricted funds by *not* transferring the 2008 accrued interest into the operating account. This amounts to approximately \$120,000.00.



Leave Buy Back

The Fair has established an account receivable for employees to collect the amount paid for compensated leave to comply with DPA approved limits

Cash Accounts

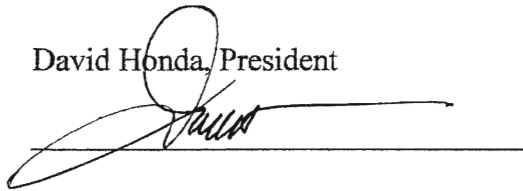
The Fair has noted the submission of Standard Form 445, "Report of Bank / Savings and Loan Association" to reflect the general ledger balance and has made the correction.

Junior Livestock Auction

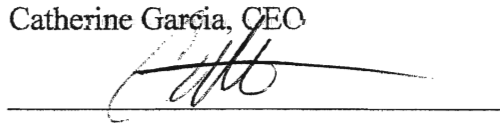
The Fair endeavors to improve its accounting procedures for JLA transactions. Hiring competent livestock personnel is the continuous priority of the Fair. In doing so, the Fair strives on a yearly basis to improve the JLA accounting procedures and run an efficient livestock program.

Sincerely,

David Honda, President

A handwritten signature in black ink, appearing to read "David Honda", is written over a horizontal line.

Catherine Garcia, CEO

A handwritten signature in black ink, appearing to read "Catherine Garcia", is written over a horizontal line.

cc: Division of Fairs & Expositions

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 51st DAA, the Valley Fair, for its review and response. To provide clarity and perspective, we are commenting on the Valley Fair's response to our audit report

LEAVE BUY BACK

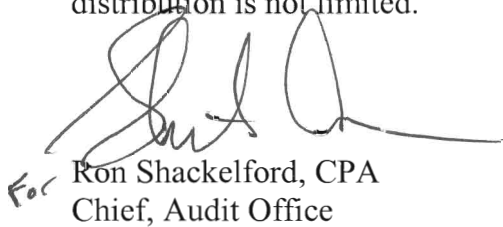
Recommendation # 2

The Fair states in their response that it is establishing an accounts receivable from the employee to collect the improper amount paid for cashing of excessive compensated leave. Subsequent to our audit field work, and based on the payroll information provided by the California Fair Services Authority in January 2009, the Fair's employee may have received a salary overpayment totaling \$18,852 as of January 27, 2009. The total amount includes the excessive leave buy back and a pay rate discrepancy from 2006 to 2008 whereas amounts were paid to the employee above the maximum rates established by the Department of Personnel Administration. According to Government Code Section 19838, when overpayments have continued for more than one year, full payment may be required by the state through payroll deductions over the period of one year. The Fair should establish an accounts receivable for the salary overpayment within its accounting records and work with its analyst at the CDFA Human Resources Branch in order to develop a repayment schedule that complies with existing State regulations.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between October 14, 2008 and October 23, 2008. My staff met with management on October 23, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



For Ron Shackelford, CPA
Chief, Audit Office

October 23, 2008

REPORT DISTRIBUTION

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